



PRIMARY SECURITIES LTD

17th March 2010

Dear Grower

Great Southern Vineyards 2004 Project ARSN 108 137 284
Great Southern Vineyards Project 2005 ARSN 108 137 293
Great Southern Vineyards 2005 (Project 2) ARSN 112 665 433

We refer to our letter of 12th February 2010 which provided information in relation to the above schemes.

The following is an update on that letter.

Vineyard Maintenance Agreement (2010 harvest)

We have now executed the Vineyard Maintenance Agreement with Quenby Viticultural Services Pty Ltd (**QVS**) for the management / maintenance of those portions of the vineyards which are leased to Growers for the 2010 harvest season.

This agreement provides for:

1. the full service maintenance, including harvesting, of 355 hectares of vines (out of 524 hectares), for the 2010 season and
2. care and protection maintenance of 169 hectares of vines. This is minimal maintenance and designed to keep the vines healthy. No fruit will be harvested from these areas.
3. QVS to provide all services at its own cost and to recover those costs from the sale of the grape crop (see Potential Surplus (2010 harvest) section).
4. the sale of the entire grape crop (from all three schemes) by Primary Securities Ltd (PSL) on behalf of Growers to QVS in return for the QVS services, subject to any surplus adjustment
5. the on-sale of the grape crop by QVS to reputable wineries. QVS has entered into contracts with certain wineries whereby those wineries have agreed to purchase fixed tonnages of grapes at fixed prices. PSL has approved these contracts.
6. the accounting by QVS to PSL for any revenue generated from crop sales in excess of QVS costs.

This agreement was a revised version of an agreement entered into in September 2009 between QVS and the Receivers and Managers for the former responsible entity, Great Southern Managers Australia Limited (**GSMAL**). PSL was of the view that it had an obligation to honour that agreement.

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Projected Crop Yields, Revenue and Costs (2010 harvest) – estimate only

	Ha	Tonnes	Revenue (Note 1)	Costs (Note 2)
Total 3 Schemes	355	3,014	\$3,275,630	\$2,818,000
By Scheme				
2004	120	1,042	\$1,092,632	\$955,000
2005	70	644	\$700,270	\$555,000
2005(2)	165	1,328	\$1,482,728	\$1,308,000

Note 1 – There is no GST on grape sales.

Note 2 - Costs of vineyard management including vines on care and protection maintenance. Does not include GST.

Vines on Care and Maintenance (2010)

	Chardonnay	Merlot	Shiraz	Other	Total
By Scheme (hectares)					
2004	12	9	37		58
2005			24	8	32
2005(2)	21	10	47	1	79
	<u>33</u>	<u>19</u>	<u>108</u>	<u>9</u>	<u>169</u>

Potential Surplus (2010 harvest)

Growers will note from the above charts that if the projected yields are achieved, there may be a surplus accruing to each scheme.

This surplus has to be applied according to the scheme agreements in each case (the Constitution and the Lease and Management Agreements) subject to the right of the Receivers and Managers to a lien as per the order of the Supreme Court of Victoria on 19 August 2009.

The Lease and Management Agreements provide for rent of 12% of net proceeds of sale to be paid to the Liquidators of the land owner, Great Southern Vineyard Holdings Pty Ltd (**GSVH**) at the same time as distributions are made to Growers. Net proceeds are defined as Gross Proceeds of Sale attributable to each Grower less the Grower's Proportional Share of the Costs of Harvesting.

Growers should note that it is considered unlikely that any surplus will result in a distribution to Growers for the 2010 season as no rent has been paid to the liquidators of GSVH and there are other costs which are payable before distributions can be made.

Harvest Update

Harvesting of white grape varieties has commenced. We do not have crop reports yet, however the wineries purchasing the crop have been pleased with the quality received to date.

Receivers and Managers have paid us more 2009 Grape Sale Proceeds

Growers will be aware that in the days before the meetings at which PSL was appointed the responsible entity, the Receivers and Managers made a distribution to Growers of net proceeds of sale. One of the effects of this distribution was that Growers received a small payment and subsequently received an invoice from us for the administration fee approved by Growers at the



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meetings. A number of Growers have asked why this was done. It would have been more convenient for Growers (and ourselves) if the \$27.50 administration fee had been deducted from the monies held by the Receivers and Managers. Unfortunately PSL was not the responsible entity at the time and we are perplexed by the reasoning of the Receivers and Managers in making a distribution when they would have known we were about to render invoices.

Following our appointment on 9 February, we immediately asked the Receivers and Managers for a full accounting of moneys.

On 11 March 2010, the Receivers and Managers partially responded to our request by depositing into our Trust Accounts, the following moneys, which we understand are 2009 harvest proceeds:

2004 scheme	\$151,620.23
2005 scheme	\$67,648.28
2005(2) scheme	\$175,661.34

However it is only today that we have been informed by the Receivers and Managers that accounting information is available to collect and we are now arranging collection. It would also appear that further proceeds from the 2009 harvest are due to be paid to us by grape purchasers in relation to each scheme.

We have also today received a letter from the Receivers and Managers informing us that GSVH and GSMAL are entitled to a portion of these proceeds and requesting us to undertake not to distribute any of the moneys without their consent. The moneys are also subject to the lien granted to the Receivers and Managers by order of the Supreme Court of Victoria on 19 August 2009. We have given an undertaking not to distribute or otherwise apply any money from the proceeds accounts without first giving the Receivers and Managers at least 14 days' notice.

Our initial view is that while the land owner GSVH may be entitled to a share of proceeds (though the timing of payment is an issue), the former responsible entity GSMAL should not be entitled to any share of proceeds as it became insolvent and was no longer able to carry out its obligations under the Lease and Management Agreements, as a result of which the Growers have suffered losses.

There are also other possible claims against the former responsible entity GSMAL as foreshadowed in our last letter to Growers. At the time of investment, GSMAL had substantial assets. However GSMAL guaranteed the bank debts of the Great Southern group and its assets had been charged as security for those bank debts. We are of the view that in granting a charge over its assets, particularly given the extent of the substantial obligations to Growers under the Lease and Management Agreements, GSMAL acted contrary to its duty of care to Growers and in breach of section 601FC(1) paragraphs (b) and (c) of the Corporations Act.

We need to examine these issues and respond to the Receivers and Managers on behalf of Growers. We will be looking for a way to avoid having to commence legal proceedings as that is unlikely to be in the best interest of Growers or the Receivers and Managers or the liquidators, however we do not imagine that these matters will be able to be resolved quickly. These matters will be included in the matters to be discussed with the Grower Committee. Therefore we are not currently able to access or distribute the moneys in the proceeds account, or apply those moneys to payment of the outstanding fees.

Until these matters are resolved, which may take some time, we must proceed with the timetable for payment of responsible entity fees as per the resolutions at the Growers meetings at which we were appointed.



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Growers who have not yet paid the \$27.50 incl GST fee per Vinelot remain obliged to do so. For those who did not pay within 3 days grace of the due date, follow up invoices for the additional administrative fee of \$55.00 incl GST per Grower and a Statement accompany this letter. If this is not paid within 30 days, a further administrative fee of \$110.00 incl GST will be rendered.

We must treat all Growers equally and therefore as more than half of the Growers have already paid the fee, the remaining Growers must meet that obligation. If it is subsequently determined that a portion of the funds referred to above may be distributed to Growers, they will then be reimbursed the \$27.50 fee (less fees owing) but not the additional administrative fees on account of default.

Hand over from previous Responsible Entity

While we have maintained a cordial relationship with the Receivers and Managers, the handover to ourselves has so far not gone to our satisfaction due to the fact that five weeks after our appointment we had not until now received any financial or accounting information or contracts relating to the 2009 harvest.

Further, the Receivers and Managers should have lodged and provided Growers with financial statements for the period ended 30 June 2009 and we will now have to take on that task. We will also be late in providing half yearly financial statements.

On 4 March 2010, the Receivers and Managers handed over responsibility for the affairs of the previous responsible entity, Great Southern Managers Australia Ltd to the liquidators, Ferrier Hodgson.

Growers' Committee

The Growers' Committee has been established with 5 Grower members and will have its first meeting shortly. We still ideally seek one additional member with an interest in Scheme 2005(1).

Future of Projects

Growers will be aware that the wine industry is going through its most difficult period in decades. At one time, the 524 hectares comprising the scheme vineyards may have been worth \$60,000 per hectare or in excess of \$30,000,000 in total. Currently, if they were put up for sale, the vineyards might only fetch a few million dollars for the liquidator (banks).

Purchase of the Vineyards

The Growers have no interest in the land upon which the vineyards are situated however this may develop into an opportunity for purchase / ownership. The vineyards (and land) will only have future value if there exists a market for their grape produce.

We have only received a handful of responses to our suggestion to form a trust to purchase the land. If any Growers are interested in being part of an offer to purchase the land, please contact us by emailing barbara@primarysecurities.com.au.

Supreme Court of Victoria Decision

We have been approached by a number of Growers to provide an interpretation of a recent decision by the Victorian Supreme Court on the Timbercorp Almond Schemes. These Growers have been optimistic that this decision may be of benefit to them in obtaining a financial return for the termination or extinguishing of their Vinelot lease.



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In the Almonds case, the Timbercorp receivers (who controlled the RE) sought directions from the Court to cause the RE to amend the scheme Constitutions giving the RE the power to dispose of the scheme assets free from the Growers subleases and thereby effectively to extinguish the Growers' rights in relation to the almond assets. The receivers then entered into a sale agreement for disposal of the Almond orchards and the Court approved the extinguishing of Growers' rights but subject to the Growers receiving consideration in accordance with the "principle of proportion" (the Growers had been offered \$6 million out of a total sale price of \$128 million). The Judge deemed this offer insufficient.

The Judge did not provide any information on how the respective interests, Owners v Growers, should be valued.

This decision may be of benefit to the Growers if the liquidator attempted to force a termination of the schemes in order to sell the land.

Changes of details

If you have changed your address or wish to provide us with your email address (to save us costs of postage) please complete the update forms on our website.

Register of secondary market in Vinelots

Primary Securities is considering establishing a secondary market for the sale and purchase of Vinelots on its website (subject to receiving the required permissions from ASIC, which have been applied for). Such a facility would allow Growers wishing to sell their interests and Growers seeking to acquire additional interests to do so. Whilst this facility is not yet operational, we would welcome receiving expressions of interest from those Growers who may wish to sell or acquire additional vinelots including an indicative price. Please contact the company secretary of Primary Securities Ltd, Barbara Boyd by email: barbara@primarysecurities.com.au.

Further Grower News Updates

Updates in relation to what we are doing and your scheme will be posted on our website www.primarysecurities.com.au under the heading GREAT SOUTHERN.

In order to minimize cost we prefer to communicate with Growers by email if possible. We ask all Growers who use email to provide us with an email address to which any notifications or updates can be provided. Email addresses can be notified using the contact details update form on our website or by emailing natasha@primarysecurities.com.au.

Yours faithfully

PRIMARY SECURITIES LTD

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Responsible Officer Viticulture

Robert Garton Smith
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